

MAY 15 2015

**BEFORE THE INVESTOR PROTECTION DIRECTOR
FOR THE STATE OF DELAWARE**

In the matter of)
) IPU CASE NO. 9-11-1
Citigroup Global Markets Inc.)
)
Respondent.) ADMINISTRATIVE CONSENT ORDER
)
)
_____)

WHEREAS, Citigroup Global Markets Inc. ("CGMI") is a broker-dealer registered in the state of Delaware, with a Central Registration Depository ("CRD") number of 7059; and state securities regulators have conducted coordinated investigations into the registrations of CGMI sales assistants and CGMI's supervisory system with respect to the registration of same; and

CGMI has cooperated with regulators conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigations; and

CGMI has advised regulators of its agreement to resolve the investigations pursuant to the terms specified in this Administrative Consent Order (the "Order"); and

CGMI has made certain changes to relevant order entry systems, and to CGMI's supervisory system with respect to the same; and

CGMI agrees to make certain payments in accordance with the terms of this Order; and

CGMI elects to waive permanently any right to a hearing and appeal under 6 *Del. C.* §§ 73-304, 73-502, and 73-601 with respect to this Order; and

CGMI admits the jurisdiction of the Investor Protection Unit of the Delaware Department of Justice (the "Unit") in this matter; and

Solely for the purpose of terminating the multi-state investigations, including the investigation by the staff of the Unit, and in settlement of the issues contained in this Order, CGMI, without admitting or denying the findings of fact or conclusions of law contained in this Order, consents to the entry of this Order.

NOW, THEREFORE, the Investor Protection Director for the State of Delaware (the "Director"), as administrator of the Delaware Securities Act (6 *Del. C.* Ch. 73) (the "Act"), hereby enters this Order:

I.

FINDINGS OF FACTS

Relevant CGMI Business Units

1. CGMI is a registered broker-dealer and wholly-owned subsidiary of Citigroup Inc. Prior to June 1, 2009, CGMI primarily operated its U.S.-based retail brokerage business through a business unit under the name Smith Barney. CGMI also operated, and continues to operate other businesses, including a retail brokerage currently operated under the name Citi Personal Wealth Management.

2. On June 1, 2009, Citigroup Inc. sold a majority stake in its primary retail brokerage business to Morgan Stanley & Co., Inc. ("Morgan Stanley"). Morgan Stanley combined that business and its own retail brokerage operations into a joint venture operated by a new broker dealer known as Morgan Stanley Smith Barney LLC ("MSSB").

3. After the June 1, 2009 transaction, Citigroup Inc. retained control and ownership of the CGMI businesses that had not been sold to Morgan Stanley.

4. The multi-state investigations covered the period from January 1, 2007 through September 30, 2014 (the "Relevant Period"). The factual representations that follow relate to all or some portion of the Relevant Period.

Background on CGMI Personnel

5. CGMI's primary customer-facing retail broker-dealer agents were known as Financial Advisors ("FAs").

6. CGMI also employed sales assistants ("SAs") using various job titles. Sales assistants were generally tasked with assisting FAs and customers with administrative and operational support. Sales assistants were involved in such tasks as:

- a. answering phones, taking messages, and responding to calls when appropriate;
- b. giving clients market quotes;
- c. typing correspondence for FAs within the parameters of CGMI guidelines;

- d. maintaining files for FAs on clients and products;
- e. providing follow-up with clients and operations staff; and
- f. obtaining investment and product information for FAs.

7. Some sales assistants were registered with CMGI (hereafter “RSAs”). RSAs are of particular significance to this Order because on occasion, they could accept unsolicited client orders from clients. Accordingly, RSAs were required to pass the series 7 and 63 and/or 66 qualification exams and to register in the appropriate jurisdictions.

8. During the Relevant Period, a policy relevant to this Order stated, “Registered Sales Assistants need to be registered in every state that the FA(s) for whom they provide coverage is registered.”

9. During a portion of the Relevant Period (see paragraph 11, below), CGMI personnel used a computerized order entry system known as “NextGen” to enter orders on behalf of customers.

10. The NextGen order entry process was intended to generally work as follows: NextGen automatically populated the order-entry screen with the logon ID of the person entering the order, the name of that person, and the date and time the order was entered. The person entering the order verified that she was the person who received the order at the time the order was entered by checking the box stating: “Check to confirm client receipt information.” If the person entering the order was not the person who received the order, then the person entering the order entered the NextGen logon ID for the person who received the order into the “Received by ID/Name Box.” The person entering the order was prompted to provide her password. At that point, a variety of validations were conducted including a check to ensure that the FA of record for the account was duly registered in the applicable state(s). However, NextGen did not check to ensure that the person accepting the client order, if different from the FA assigned to the account, was registered in the applicable state(s). Once the validation checks were completed, the order was either blocked or moved forward to the verification screen. If a trade was blocked due to a registration gap, an error message appeared on the NextGen screen stating: “FC REGISTRATION VIOLATION-CALL YOUR REG REPRESENTATIVE.” If the trade was not blocked, the person entering the trade was prompted to verify and submit the order. Upon submission, the order entry process was complete, and the order was sent to the market for execution.

11. CGMI ceased using NextGen, and implemented a new order entry system during